

**REPORT OF THE AUDIT OF THE
FORMER HICKMAN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER HICKMAN COUNTY SHERIFF

**For The Year Ended
December 31, 2010**

The Auditor of Public Accounts has completed the former Hickman County Sheriff's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$3,303 from the prior year, resulting in excess fees of \$13,676 as of December 31, 2010. Excess fees of \$2,060 are due fiscal court as of the audit date. Revenues increased by \$13,235 from the prior year and expenditures increased by \$9,932.

Report Comments:

2010-01 The Former Hickman County Sheriff Should Have Made Deposits In A Timely Manner
2010-02 The Former Hickman County Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Pruitt, Hickman County Judge/Executive
The Honorable John Turner, Former Hickman County Sheriff
Members of the Hickman County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Hickman County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 9, 2011 on our consideration of the former Hickman County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Greg Pruitt, Hickman County Judge/Executive
The Honorable John Turner, Former Hickman County Sheriff
Members of the Hickman County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

2010-01 The Former Hickman County Sheriff Should Have Made Deposits In A Timely Manner
2010-02 The Former Hickman County Sheriff's Office Lacked Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Hickman County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

May 9, 2011

HICKMAN COUNTY
JOHN TURNER, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	6,529	
State Fees For Services:			
Finance and Administration Cabinet	\$	36,274	
Sheriff Security Service		4,447	
Telecommunication Commissions		645	41,366
Circuit Court Clerk:			
Fines and Fees Collected		1,529	
Court Ordered Payments		240	1,769
Fiscal Court			37,200
County Clerk - Delinquent Taxes			2,800
Commission On Taxes Collected			73,121
Fees Collected For Services:			
Auto Inspections		2,185	
Accident and Police Reports		78	
Serving Papers		6,965	
Carrying Concealed Deadly Weapon Permits		1,080	
Transporting Patients		4,020	
Tax Penalty Fees		8,718	
Court Security		3,941	26,987
Other:			
Miscellaneous			1,122
Interest Earned			375
Borrowed Money:			
State Advancement			30,000
Total Revenues			221,269

The accompanying notes are an integral part of this financial statement.

HICKMAN COUNTY
 JOHN TURNER, FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries	\$	34,853
Other Salaries - Court Security		28,067

Employee Benefits-

Employer's Share Social Security	2,208
Employer's Share Retirement	925
Workman's Compensation	1,855
Unemployment Insurance	199

Contracted Services-

Advertising	113
Contract Labor	400

Materials and Supplies-

Office Materials and Supplies	427
Uniforms	979
Telephone	3,961
Radio Expense	896

Auto Expense-

Maintenance and Repair	1,351
Mileage	25,430

Other Charges-

Convention and Travel	1,388
Postage	1,547
Transporting Prisoners	1,125
Carrying Concealed Deadly Weapon Permits	120
Miscellaneous	1,081
	<u>1,081</u>
	\$ 106,925

Debt Service:

State Advancement	<u>30,000</u>
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Total Expenditures		<u>\$ 136,925</u>
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The accompanying notes are an integral part of this financial statement.

HICKMAN COUNTY
JOHN TURNER, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2010
(Continued)

Net Revenues	\$ 84,344
Less: Statutory Maximum	<u>70,668</u>
Excess Fees Due County for 2010	13,676
Payment to Fiscal Court - January 28, 2011	<u>11,616</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 2,060</u></u>

The accompanying notes are an integral part of this financial statement.

HICKMAN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HICKMAN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Non hazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Hickman County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Hickman County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

HICKMAN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 4. Drug Fund

The Hickman County Sheriff's Office maintains a Drug Fund Account as set forth by KRS 218A.435. This account is funded by court-ordered forfeitures of money and/or property. The funds are to be used for various law enforcement operations and equipment to fight against drug problems in Hickman County. As of January 1, 2010, the Drug Fund has a balance of \$11,880. During the year, funds of \$1,060 were received and \$386 was expended, leaving an ending balance of \$12,554 as of December 31, 2010.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Pruitt, Hickman County Judge/Executive
The Honorable John Turner, Former Hickman County Sheriff
Members of the Hickman County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Hickman County Sheriff for the year ended December 31, 2010, and have issued our report thereon dated May 9, 2011. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Hickman County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2010-02 to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Hickman County Sheriff's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2010-01.

This report is intended solely for the information and use of management, the Hickman County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

May 9, 2011

COMMENTS AND RECOMMENDATIONS

HICKMAN COUNTY
JOHN TURNER, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2010

STATE LAWS AND REGULATIONS:

2010-01 The Former Hickman County Sheriff Should Have Made Deposits In A Timely Manner

KRS 68.210 gives the State Local Finance Officer the authority to establish minimum accounting requirements, which includes making deposits on a daily basis or at least weekly if the Sheriff had only collected less than \$500. Additionally, the practice of making timely deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible misappropriation. The former Hickman County Sheriff made most deposits on a weekly basis however the deposits were usually greater than \$500. We recommend that the deposits be made daily or at least when the official collects \$500 in receipts.

Former Sheriff John Turner's Response: No response.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-02 The Former Hickman County Sheriff's Office Lacked Adequate Segregation Of Duties

A lack of adequate segregation of duties existed over all accounting functions. During review of internal controls, we noted that the former Sheriff's bookkeeper was responsible for opening mail, receiving and recording cash, preparing daily checkout sheets and making deposits, writing disbursement checks, posting to the receipts and disbursements ledgers, reconciling bank records to the receipt and disbursement ledgers, and preparing monthly financial reports.

The former Sheriff's limited budget placed restrictions on the number of employees the he could hire. When faced with a limited number of staff, strong compensating controls should have been in place to offset the lack of segregation of duties. In addition, the former Sheriff did not have any type of formal administrative policies in place to outline what was expected of employees within his office. This lack of oversight could have resulted in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government, which could occur but go undetected.

A segregation of duties over the accounting functions listed above or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties of the bookkeeper. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could provide this oversight. If the Sheriff implements compensating controls, these should be documented on the appropriate source document.

Former Sheriff John Turner's Response: No response.

